



## SYLLABUS

### Class – B.Com. III Sem. (Taxation)

#### Subject – Income Tax Procedure & Practice

UNIT – I	General Introduction of Indian Tax System : Indian Tax Structure, Brief, Information of Various Taxes Imposed by the Govt. of India, State Govt. and Local bodies. Merits and Demerits of Indian Tax System.
UNIT – II	Introduction of Income Tax: Meaning, features and contribution to public revenue. Important definition-income, gross total income, total income, previous year and assessment year, agriculture income, exempted income. Determination and tax incidence of residential status.
UNIT – III	Computation and taxable income from salary head.
UNIT – IV	Computation of taxable income from 'House Property' head. Computation of taxable income from 'Business or Profession' head.
UNIT – V	Capital Gains: Short term and Long term, exemption from capital gains, computation of capital gains/loss. Computation of taxable income under the head "Income from other sources."



## UNIT-I

### Indian Tax System & Income Tax Law

Taxation is the major Instrument in the hand of the modern Governments to raise finance to meet expenditure done on various public services. It is a compulsory obligation on the peoples and the payment of which is the legal duty of the citizens. It may be on their property. Income and even it may be required to pay at the time of manufacturing and selling or purchasing a commodity. Tax constitute the major source of the government's income.

### SALIENT FEATURES OF INDIAN TAX SYSTEM

1. Three Tire Tax System
2. Various Types of Taxes
3. Important sources are in hands of the Central Government
4. Composition of Tax Structure
5. Modrate Rates of Taxes
6. Direct and Indirect Taxes
7. Public Revenue and National Income
8. Local Finance
9. Elasticity in State Revenue
10. Integration between Central and State Revenue
11. Incidence of Taxation
12. Tax Evasion and Corruption

### MERITS AND DEMERITS OF INDIAN TAX SYSTEM

#### Merits

1. Based on equity
2. Different types of taxes
3. Based on the canon of certainty
4. Elasticity
5. Productive tax system
6. A good combination
7. Follow up the maximum welfare theory
8. Rapidly reduction in tax rates
9. Simplification
10. Wide scope of taxation

#### Demerits or Shortcoming

1. Traditional and Conservative
2. Haphazard
3. Regressive Character
4. Inefficient to check tax Evasion
5. Narrow Overage
6. High Rate of Taxation
7. Resources Inadequate and Inelastic
8. No Uniformity
9. Predominance of Indirect Taxes
10. No Buoyancy
11. Lack of Efficiency
12. Defective Financial Allocation
13. No Functional Role
14. Defects on the Expenditure Front
15. Corruption



### **SUGGESTIONS FOR IMPROVEMENT**

1. Curtailment in tax rates
2. Check on tax evasion
3. Extending the tax payers numbers
4. Priority to direct taxes
5. Simplification of tax Laws
6. Changes in public expenditure
7. The regressive nature o the taxation system should be curbed
8. Uniformity
9. Study of Effects
10. Reduction in direct tax rates
11. Saving and planning habits of the people should be encouraged
12. An All India Taxation Council should be instituted

### **Tax System**

The tax is compulsory payment to the Government by taxpayer without any expectation of some specified return. While paying tax, the tax payer is not entitled to force the Government to give something to him in return of the sum he has paid as tax.

### **CHARACTERISTICS OF A TAX**

The conclusions which stem from the above discussion help us to point out certain characteristics of a tax which are generally called the elements of a tax. We may discuss the characteristics of a tax under the following heads.

1. A compulsory payment
2. Tax is a payment to the Government by the public
3. Taxes are paid by the persons and organization
4. Tax is a Legal provision
5. The benefit Received is not directly associated with the return of tax
6. Element of sacrifice
7. Payment for the common welfare
8. Tax adversely affects the monetary condition of tax payer
9. Taxes Increase the purchasing capacity Indirectly
10. Various types of taxes

### **OBJECTS OR AIMS OF TAXATION**

1. Raising Public Revenue
2. Reduction in the Inequality of Wealth
3. The Aim of Tax Collection is for Public Good
4. Restriction on production and use of harmful goods
5. Regulation of Import and Export

### **MERITS AND DEMERITS OF DIRECT TAXES**

#### **Merits of Direct Taxes**

1. Equitable
2. Elastic
3. Civic Consciousness
4. Reduce Inequalities
5. Economy
6. Certainty
7. Absence o leakage



8. Educative Value or Civic Consciousness

### **Demerits of Direct Taxes**

1. Unpopular
2. Inconvenience
3. More Possibility of Evasion
4. Possibility of Injustice
5. Narrow Based
6. Not so Economical
7. Discourage Savings
8. Corruption
9. Black Money

### **INDIRECT TAXES**

Indirect taxes are now defined as taxes on commodities. These are customs duties such as import and export duties on the value of goods manufactured and sales tax on goods purchased. In a sense, indirect are taxes on expenditure.

Due to lack of any precise definition, all taxes on commodities and services other than personal services are treated as indirect taxes. Thus, all types of sales tax, excise and customs duties are grouped as indirect taxes.

### **Merits of Indirect Taxes**

1. Highly Revenue givers in Developing Countries
2. Convenient
3. Elastic
4. Productive
5. Lower Collection Costs
6. Slightly Less Tax Evasion
7. Can be Progressive
8. Psychological Advantages to Tax payer
9. Rational and Equitable Allocation of Resources
10. Help in Capital Formation
11. Balanced Regional Development
12. Broad based
13. Social Welfare

### **Demerits of Indirect Taxes**

1. Regressive
2. Uncertainty
3. No Civic Consciousness
4. Inflationary
5. Tax Evasion
6. Loss of Consumer Surplus
7. Encourage Dishonesty and Corruption

### **Indian Tax Structure**

There is a Union Government system in India. Administration lies in the hands of Central, States and local self governments. Functions of each government have been divided in the constitution. At the same time, their sources of finance have been specifically distributed. Description of centre-state financial relations is as under



## HIGHLIGHTS OF TAX STRUCTURE IN INDIA

There is a clear allocation of sources among and states under Indian constitution. Central Govt. is authorized to impose some taxes, like Income Tax, Excise Duty, Customs etc. while State Governments may impose tax on sales or purchase of goods, Excise duty on intoxicants, land revenue, entertainment tax etc. A table is given below regarding various imposed by central, state and Local Governments.

Central Taxes	State Taxes	Local Taxes
1. Income Tax	1. Sales tax or VAT (Commercial Tax)	1. Octroi
2. Corporate Tax (tax on income of companies)	2. State Excise Duty	2. Property tax
3. Wealth tax	3. Road tax	3. Light and water tax
4. Excise Duty	4. Land Revenue	4. Sanitary tax
5. Customs	5. Agricultural Tax	5. Market tax
6. Service tax	6. Entertainment Tax	6. License fees on shop
7. Expenditure tax	7. Stamp Duty	7. Passenger tax
8. Fringe Benefit Tax	8. Electric Tax	8. Tax on hoardings
9. Securities transaction Tax	9. Professional tax	9. Exhibition and fairs tax
10. Commodity Exchange Tax	10. Entry tax	10. Entry tax
	11. Vehicle tax	

## **Main Taxes of central Government**

### **1. INCOME TAX**

“Income tax is a tax on yearly taxable income of a person levied by the Central Government at prescribed rates.” Tax payers include individual, firm, company, Hindu undivided family, association of persons, trust etc.

Taxable income means income calculated under the provisions of the Income Tax Act.

### **Salient Feature of Income Tax**

1. Central Tax
2. Direct Tax
3. Tax on Taxable Income
4. Tax Exemption limit
5. Progressive rates of Tax
6. Scope of Taxation
7. Burden on Rich class of Persons
8. Administration of Income Tax
9. Distribution of Income Tax

### **Merits of the Income Tax**

1. Helpful in reducing the unequal distribution of wealth
2. Definiteness
3. Elasticity and Productivity
4. Shifting of tax burden not possible
5. Just and Equitable

### **Demerits of the Income Tax**

1. Bad effect on economic development



2. Income cannot be the only measurement of taxable capacity
3. Tax evasion

## 2. WEALTH TAX

Wealth tax is levied annually on the Net wealth of a person's Wealth-tax was levied in India on the recommendations of Prof. Kaldor. It was imposed in 1957 This tax was imposed on the net wealth of individuals, H.U.F. and companies and was an annual tax About 900 cores are collected annually through this tax. The tax was considered justified on grounds of equity, economic effects and administrative efficiency. Prof. Kaldor also pointed out that income by itself is not an adequate measure of ability to pay but a combination of income and property.

Wealth tax is a tax which is levied on an annual basis on the net wealth of the assesses. It is a recurring tax and as such its rates have been kept quite low. The rate of wealth tax is only percent on excess wealth amounting to 30 Lacs. Rs. 30 Lacs is exemption limit for the financial year 2014-15 and on wards.

According to Central Budget 2015-16 Tax is abolished w.e.f. 2015-16

## 3. CENTRAL EXCISE DUTY

Meaning of Excise Duty- Excise Duty means that duty which is imposed by Indian Govt. on manufacturing of Goods in India. Purchase or sale of Goods is not connected with it. This is an indirect tax which is collected from the manufacture.

Characteristics of Excise Duty

1. It is imposed on the manufacture or production of the goods in factory
2. It is imposed on the goods or things produced.
3. It's final burden falls upon the consumer.
4. It is normally imposed on the ex-factory price. Permission is to be sought for taxable goods.
5. Its payment to be made before removal from factory or mill.
6. This tax is imposed throughout India only in one form.
7. It is imposed only once on the finished goods except it is use as raw material for production of another goods.
8. As per the rules of the excise duty, specific record has to be maintained regarding removing or shifting of the manufactured stock and the goods form the factory.

### Merits of Excise Duty or Importance of Excise Duty

1. Major source of Governments revenue
2. Psychological advantage to tax payer
3. Easier to Collect
4. Balanced industrial growth
5. Less collection cost
6. Tax evasion difficult
7. Control over wasteful expenditure
8. Channelize industrial growth
9. Manufactures favours indirect taxes
10. Record keeping easier
11. No resistance by consumers

### Disadvantage or demerits of Excise duty

1. Increases the Price of goods
2. The incidence is uniform
3. Reduces demand of goods
4. Increases project costs
5. Shields inefficient local industries



6. Modern technology becomes costly
7. Increases smuggling/tax evasion

#### **4. CUSTOMS DUTY**

Customs Duty is an Indirect tax levied by central Government on import and export of goods. Customs Duty is applicable in foreign trade. It is an important source of revenue and instrument of regulating import and export of the country. Customs Duty is levied on the following two types of business

1. Import Duty- When a person imports some goods from outside India, is called import and tax or duty payable on such goods called 'Import Duty'.
2. Export Duty- When a person exports some goods from India to other countries is called Export and duty payable on such goods called 'Export Duty'.

#### **Merits of Customs Duty**

1. Regulating import and Export
2. Protection to Domestic Industries
3. Regulating the international trade competition
4. Checking on wasteful expenditure

#### **Disadvantages of Customs Duty**

1. Increases the prices
2. Increase the cost of projects
3. Domestic Industries become lethargic
4. Incidence of customs Duty is uniform without discrimination
5. Corruption

#### **SERVICE TAX**

Service tax is a new tax imposed by the Central Government on taxable services Taxable service means which is included in the list of taxable services under sec. 65 of the Act. The salient features of service tax are discussed as under.

1. Imposition
2. Number of Taxable Services
3. Rate of Service Tax
4. Collection form Service Tax
5. Applicability of Service Tax
6. Value of taxable service for charging Service tax
7. Exemption to small service providers

#### **6. CENTRAL SALES TAX**

Central Sales Tax is applicable on sales of goods from one state to another. This tax is imposed by the Central Govt. but is collected by the states and the amount also used by the states. This tax is imposed on the Inter-state sale of goods. Income from this tax is divided between Central and State govts. As finance commission suggests. For example-sale of goods from a Regd. Dealer of M.P. to a dealer of Bihar is inter-state sale and hence Central Sales Tax Act is applicable. Though it is a central tax but the tax on such inter-state sale will be collected and retained by M.P. Govt.

#### **Main features of the CST Act, 1956**

1. Jurisdiction



2. Single point tax
3. Tax collection
4. Important goods
5. Restrictions
6. Rates of tax
7. No minimum tax-free limit
8. Process of tax-assessment
9. Right to frame rules

### **TAXES IMPOSED BY STATE GOVERNMENTS**

States are empowered to impose various taxes according to allocation made in Indian constitution. Some important taxes, which are levied and collected by state governments, are discussed below.

#### **1. VALUE ADDED TAX (VAT)**

Value Added Tax i.e. VAT is a refined form of Sales-tax. However, VAT is a multi point tax. In this system though tax is payable on sale of goods, but is payable only on the value addition and not on the total sale value. VAT is applicable in many countries.

VAT has been implemented from 1.4.2005 in whole India except some States Like M.P. Gujarat, Rajasthan etc. specially BJP ruled states. Now VAT is also levied in M.P. by implementing M.P. VAT Act 2006 W.e.f. 1.4.06. Govt. of M.P. collects revenue from VAT about 20,000 crores.

#### **Merits or Advantages of VAT**

1. Not cascading effect
2. Easy implementation
3. Lesser cost of compliance
4. Less complications
5. Minimum possibilities of Litigation
6. Facility of Input Tax Rebate
7. Check on tax evasion
8. Limited self assessment
9. Payment in various stages
10. Restriction on undue relaxations and exemptions

#### **Demerits or Limitations of VAT**

1. Long term process
2. Difficulty in set off
3. Problem in refund
4. Multiple rates of tax
5. Accounting problems
6. Conflict between VAT & CST
7. Higher prices
8. Unresolved problem of CST
9. More formalities
10. Corruption

#### **2. LAND REVENUE**

Land Revenue is the oldest tax. It is imposed on Land owners, specially agricultural and. It is levied on the basis of area of land or a certain percentage of crop earned. It is, popular as the name of 'LAGAN'.

#### **Merits of Land revenue**

1. Certain
2. Convenient





Demerits of land revenue

1. Inequitable
2. Costly
3. Inelastic

3. **AGRICULTURAL INCOME TAX**
4. **STATE EXCISE DUTIES**
5. **ENTERTAINMENT TAX**
6. **STAMP AND REGISTRATION FEES**
7. **PROFESSIONAL TAX**
8. **TAX ON MOTOR VEHICLES**
9. **TOLL TAX**

**LOCAL TAXES**

1. Property Tax
2. Octroi : Local Tax on goods

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## UNIT-II

### Basic concepts of Income Tax

#### Meaning of Income Tax

Income tax is a tax on year taxable income of a person levied by the Central Government at prescribed rates. Tax payers include individual, firm, company, Hindu undivided family, association of persons, trust etc. Taxable income means income calculated under the provisions of the Income Tax Act, 1961

#### Salient Features of Income Tax-

1. Central Tax
2. Direct Tax
3. Tax on Taxable Income
4. Progressive rates of Tax
5. Scope of Taxation not only with individual but also with firm, company, HUF, Trust & Co-Operative Societies
6. Tax Exemption limit
7. Burden on Rich class persons
8. Separate Administration
9. Distribution of Tax between Central and State Government
10. It is largest source of revenue.
11. Tax for country welfare
12. History of income Tax in India is about 150 years old.
13. Control on Income by Income tax
14. Beginning of Income Tax by sir James Wilson in 1860 in India.

#### Income [Section 2(24)]

Though 'Income' is a very important word for the Income Tax Act but no precise definition of the word "Income" is attempted under the Income Tax Act, 1961. The term "Income", in the context of the Act, is inclusive. The narration given in Sub-Section (24) of Section 2 of the Act enumerates certain items, including those which cannot ordinarily be considered as income but are treated statutorily as such.

#### Definition of Income [Section 2(24)]

Income Includes:-

1. Profit and gains;
2. Dividend;
3. Voluntary contributions received by a trust.
4. The value of a perquisite or profit in lieu of salary.
5. Any special allowance or benefit other than perquisites included under 4.
6. Any allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office
7. The value of any benefit or perquisite obtained from a company.
8. Any compensation
9. Profit on sale of License
10. Cash assistance received
11. Any interest, salary, bonus, commission/remunerations
12. Profit/gain of mutual or co-operative insurance co.
13. Capital gain arising from transfer of capital gain
14. Any sum received under a key man insurance policy.

#### Agricultural Income [Section 2 (1A)]

##### Definition of Agriculture Income

Sec. 2(1A) defines "agricultural income" to mean -



- (A) any rent or revenue derived from land which is situated in India and is used for agricultural purposes,
- (B) any income derived from such land by agriculture or by the process employed to render the produce fit for the market or by sale of such produce by a cultivator or receiver of rent in kind,
- (C) Any income derived from any building provided the following conditions are satisfied (i) The Building is immediate vicinity of the agriculture land (ii) it is occupied by the cultivator or received of rent or revenue (iii) It is used as a dwelling house or store house/out house. (iv) The land is assessed to land revenue or a local rate.
- (D) Any income derived from saplings/seedling grown in a nursery shall be deemed to be agricultural income.

**Partly Agricultural Income Shown by Chart**

S.No.	Partly Agricultural Income	Agricultural Income	Non Agricultural Income
1	Growing & manufacturing tea in India	60%	40%
2	Growing & cured coffee in India by the seller	75%	25%
3	Sale of Coffee grown, cured, roasted and grounded	60%	40%
4	Sale of centrifuged latex or cenex manufactured from rubber	65%	35%
5	Other Agricultural produce grown by the manufacturer and used for own product.	Market value of agricultural produce used in production	Remaining Business income will be taxable.

**Income connected with land but not agricultural income -**

- 1. Profit earned on purchasing the standing crop.
- 2. Income from mines
- 3. Income from self grown grass, trees/bamboos
- 4. Divided from a company engaged in Agricultural
- 5. Income from warehouses and godowns.
- 6. Income from land used for brick making
- 7. Income from supply of water for irrigation purposes.
- 8. Remuneration for managing agricultural property.
- 9. Income from dairying.
- 10. Interest accrued on promissory notes executed for arrears of rent.

**Agricultural Income and Tax Liability -**

Though agricultural income is exempt and it is not included in computation of total income of an assessee but from tax calculation point of view it is added to total income. The agricultural income is integrated with non-agricultural income in those cases where assessee has both incomes. Such integration is done only in the case of individual, HUF, AOP/BOI and Artificial juridical person.

**Condition for Integration -**

When the following two conditions are satisfied-

- (i) Non agricultural income of the assessee exceeds the maximum exemption limit which for the assessment year 2017-18 is Rs. 2.5 lakh in the case of an individual, Women and HUF in case of Senior citizen it will be Rs. 3,00,000 and Super senior citizen Rs. 5,00,000 instead of Rs. 2,50,000/-.
- (ii) Net agricultural income exceed Rs. 5,000



**Procedure for computation of Tax-payable on non-agricultural income after Integration-**

1. Aggregate the Agricultural income with non Agricultural income and determine the tax payable on such amount.
2. Aggregate the Agricultural income with basis exemption limit and determine the tax payable on such amount.
3. The difference between the tax computed in step (a) and step (b) will be the tax payable in respect of non-agricultural income.

**CASUAL INCOME**

Causal Income means such income the receipt of which is accidental and without any stipulation. It is the nature of an unexpected windfall.

Though causal income is fully taxable but it is necessary to clear this meaning from the following point of view –

1. Causal income like lottery, race income are taxable at special rate of 30%
2. Causal income cannot be set off against other causal income as well as casual income cannot be used for setting off loss of other head.

**4. ASSESSMENT YEAR : (2017-2018)**

It means the period of twelve months commencing on 1<sup>st</sup> of April every year. In other words period of 12 months – 1<sup>st</sup> April to 31<sup>st</sup> March is called assessment year.

**5. PREVIOUS YEAR (Section 3)(2016-2017)**

Previous year means the financial year immediately preceding the assessment year e.g. for the assessment year 2017-2018 previous year will commence on 1<sup>st</sup> of April, 2016 and end on 31<sup>st</sup> March, 2017. Previous year for income tax purposes will be financial year which ends on 31<sup>st</sup> of March, however the assessee can close his books of accounts on other date e.g. an assessee may maintain books of accounts on calendar year basis but his previous year, for Income Tax purpose, will be financial year and not the calendar year. This uniform previous year has to be followed for all sources of income.

Important points in relation to previous year: Under the following situation the previous year would be -

1. Where a different accounting year is followed
2. Previous year in case of newly set up business
3. In case of newly created source of income

**Exception to the rule of Previous Year:**

These exceptions are:

1. Shipping business income of non-resident ship-owners
2. In case of persons leaving India
3. In case of persons who are likely to transfer their assets to avoid tax
4. In case of discontinued business

**PERSON [SECTION-2 (31)]**

The term 'person' includes:

- (1) An individual
- (2) A Hindu undivided family
- (3) A Company;
- (4) A Firm;
- (5) An association of persons or a body of individuals, whether incorporated or not;
- (6) A local authority like Municipalities, Panchayats, Cantonment Boards, Port Trusts etc.



(7) Every artificial juridical person Like Life Insurance Corporation, University etc.

**ASSESSEE [SECTION-2 (7)]**

In simple word, An Assessee is a person who is liable to pay any sum under Income Tax Act or in respect In respect of whom the proceeding have been initiated under this Act.

The word 'assessee' has been defined in Section 2(7) of the Act according to which assessee means a person by whom any tax or any other sum of money is payable under the Act and includes -

**(a) Every person:**

- (i) Who is liable to pay any tax; or
- (ii) Who is liable to pay any other sum of money under this Act (e.g. interest, penalty, etc); or
- (iii) In respect of whom any proceeding under this Act has been taken for the assessment of the income; or
- (iv) In respect of whom any proceeding under this Act has been taken for the assessment of the income of any other person in respect of which he is assessable; or
- (v) In respect of whom any proceeding under this Act has been taken for the assessment for the loss sustained by him or by such other person; or
- (vi) In respect of whom any proceeding under this Act has been taken for the amount of refund due to him or to such other person;

**(b) A Deemed Assessee:**

A person who is liable to pay tax not only on his own income but on the income of any another person. Deemed assesses includes legal representative, agent of non resident, guardian or manager of an infant and lunatic, trustees and administrators etc.

**(c) Who is deemed to be an assessee in default?**

A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income tax Act.

**GROSS TOTAL INCOME**

Gross Total Income means aggregate amount of taxable income computed under five heads of income i.e. salaries, house property, business & profession, capital gains and other sources. In other words, Gross Total Income means total income computed in accordance with the provisions of the Act before making any deduction under sections 80C to 80U.

In Simple words, the aggregate amount of the following heads of income is called Gross Total Income -

- (i) Salaries (Cash receipts and perquisites from the employer),
- (ii) Income from House Property (Rental income)
- (iii) Profits an Gains of Business or Profession,
- (iv) Capital Gains from transfer of movable and immovable assets,
- (v) Income from other Sources i.e. interest, royalty, lottery etc.

**TOTAL INCOME**

The following are the current rates of taxation for an individual, Hindu, Undivided Family, firm, company and co-operative society for the assessment year 2017-18.

**BASIS OF CHARGE (TAX RATE)**

**Tax Rates -**

Applicable tax rates for the Assessment Year 2017-18 (Previous year 2016-2017) are as follows -

1. Tax rates applicable on individual and HUF (less than 60 years)-

Income	Tax Rate
On First Rs. 250000	NIL



On Next Rs. 250001 to 5,00,000	10%
On Next Rs. 5,00,001 to 1000000	20%
On above 10,00,000	30%

2. **Resident senior citizen Assessee** (Whose age is 60 year or more but less than 80 years) Male or Female

Income	Tax Rate
On First Rs. 3,00,000	-
On Next Rs. 3,00,001 to 5,00,000	10%
On Next Rs. 5,00,001 to 10,00,000	20%
On above 10,00,000	30%

3. **Super Senior Citizen Assessee** (80 years or more)

Income	Tax Rate
On First Rs. 5,00,000	-
On Next Rs. 5,00,001 to 10,00,000	20%
On above 10,00,000	30%

4. **Partnership firm** - 30% flat Rate on Income of firm.

5. **Domestic Company** –Domestic Company 30% flat rate on income if income is more than Rs. 1 Crore then 5% Surcharge & 10% surcharge in case exceed of 10 Crore is also applicable on tax payable.

6. **Foreign Company** –Foreign Company 40% flat rate on income if income is more than Rs. 1 Crore then 5% Surcharge & 10% surcharge in case exceed of 10 Crore is also applicable on tax payable.

7. **Co-operative Society** –

Income	Tax Rate
On First Rs. 10,000	10%
On Next Rs. 10,000	20%
On remaining balance	30%

8. **Tax Rate on special income-**

a. Long term capital gain	20% (Flat)
b. Short term capital gain (U/s 111A)	15% (Flat)
c. Income on lottery, horse race, Cross word Puzzle etc.	30% (Flat)

9. **Education Cess** – 3% Education Cess is applicable on taxable Income of all type of assessee but in case of company education cess is applicable after adding of surcharge (if any).

### INCOME WHICH DOES NOT FROM PART OF TOTAL INCOME

#### EXEMPTED INCOME

Section -10 of Income Tax Act laye down income which is totally or partially exempted from tax-

#### A. EXEMPTED INCOME FOR ALL ASSESSES

1. Agricultural Income Sec. 10(1)
2. Share of income from partnership firm Sec. 10 (2A)
3. Share of HUF Income Sec. 10(2)



4. Scholarships – Sec.10(16)
5. Income as divided Sec. 10 (34 & 35)
6. Capital gain on transfer of u/s 64 (Sec. 10 (33))
7. Allowance of M.P./MLA Sec. 10 (17)
8. Award / reward Sec. 10 (17A)
9. Pension to gallantry award winner Sec. 10(18)
10. Family Pension received by the family members of armed forces Sec. 10(19).
11. Capital gain on compulsory acquisition of urban Agriculture land Sec. 10(37)
12. Interest on notified Government Securities Sec. 10(15)
13. Income of minor child which is clubbed Sec. 10(32) [Up to 1,500/- per child]
14. Compensation under Bhopal Gas Leak Disaster Sec. 10(10BB)
15. Income of subsidy from Tea Board Sec. 10(30)
16. Income of schedule Tribe members Sec. 10(26)
17. Amount received under a life Insurance Policy Sec. 10(26)
18. Income of subsidy from Rubber Board/Coffee Board /spices board / any other notified Board Sec. 10(31)
19. Income from Sukanya Samriddhi Account – Sec. 10(11)A.

**B. EXEMPTED INCOME FOR EMPLOYEES**

1. House Rent Exempted upto a certain limit Sec.10(13A)
2. a) Gratuity, Commuted pension, leave encashment to Government employees is fully exempted Sec. 10(10)  
b) Gratuity, leave encashment, commuted pension to non-government, employees is exempted up to a certain limit.
3. a) Commutation of pension received by an employees pension for government employees, fully exempted Sec. 10(10A)  
b) Pension for non-government employee exempted upto certain limit.
4. Leave travel concession in India Sec. 10(5)

Actual Amount Received or  
 Amount Prescribed or  
 Amount Actual Spent      }      Which ever is less

5. Amount received as leave encashment on retirement Sec.-10 (10AA)
  - a) Central/State Government Employee – Fully Exempted
  - b) Other Employee exempted upto certain limit
6. Compensation on retrenchment Exempted upto certain limit.Sec.10(10 B)
7. Allowance or perquisite outside India Sec 10(7)
8. Allowance/perquisite paid outside India by Indian Government is exempted.
9. Provident fund Sec. 10(11)
  - a) P.F. received from Recognised P.F. fully exempted
  - b) P.F. received from unrecognised P.F. Taxable
10. Superannuation fund Sec. 10(13)
11. Voluntary retirement Scheme Sec. 10(10c) (Amount received by this scheme is exempted upto 5 lakh.)
12. Tax on perquisite paid by the employer is exempted Sec. 10 (10 CC)
13. Special Allowance Sec. 10 (14) (performing duty & compensatory allow).

1	Travel/Tour Allowance	Actual or Actual Expenses (Whichever is less)
2	Education Allowance	100/- Per month Per Child (for 2 child)



3	Hostel Allowance	300/- Per month Per Child (for 2 child)
4	Transfer Allowance	70% of Allowance Or 10,000 Rs. Per month } Whichever is less
5	Conveyance Allowance	Up to 1600/- Per month
6	Uniform Allowance	Tax Free
7	Helper Allowance	Actual Expenditure exempted
8	Tribal Area Allowance	Up to 200 Rs. Per month
9	Field Area Allowance	Rs. 2,600 Per month
10	Composite Hill Compensatory Allowance	From 300 Rs. to 7000 Rs. Per month. according to place
11	Border/Remote area allowance	200 to Rs. 1,300 Per month. according to place
12	Allowance to workers of coal mines	Rs. 500 Per month
13	High Attitude allowance	Rs. 1060 to Rs. 1600 Per month
14	Highly Active field area allowance	Rs. 4,200 Per month
15	Modified field area allowance	Rs. 1,000 per month.
16	Counter Insurgency Allowance	Rs. 3,900 per month.
17	Transport Allowance	Rs. 1600 per month (Rs. 3200 per month in the case of handicapped, blind or disabled employee) w.e.f. 01.04.15 Rs. 1,600 and Rs. 3,200 respectively.
18	Island (Duty) Allowance	Rs. 3,250 per month.

### C. EXEMPTED INCOME FOR INSTITUTIONS

1. Income of scientific research association Sec. 10(21)
2. Income of employee's welfare fund Sec. 10 (23AAA)
3. Venture capital fund/Company Sec. 10 (23F)
4. Income of news Agency Sec. 10 (22B)
5. Income of Professional institutions Sec. 10 (23A)
6. Income of Regimental Fund of the Armed forces Sec. 10(23AA)
7. Income of Khadi/Village industrial Sec. 10(23B)
8. Income of Khadi Board Sec. 10(23BB)
9. Income of the European Economic Community Sec. 10 (23BBB)
10. Income of statutory bodies Sec. 10 (23 BBA)
11. Income of pension fund (Set up by LIC) Sec. 10 (23AAB)
12. Income from mutual fund Sec. 10 (23D)
13. Income of Registered Trade unions Sec. 10 (24)
14. Income of local authorities Sec. 10(20)
15. Income of Co-operative Societies for Scheduled castes/Tribes Sec. 10 (27)
16. Income of political party Sec. 13 (A)
17. Income of the SAARC fund for regional Project Sec. 10(23BBC)
18. Income of a corporation promoting the interest of a minority community Sec. 10 (26BB)
19. Income of certain national funds Sec. 23 (c)
20. Income of Hospitals and Educational Institution association Sec. 10 (23C)
21. Exemption of income of Investor Protection Fund – Sec. 10 (23EA)
22. Income of Swachh Bharat Kosh and Clean Ganga Fund – Sec. 10 (23C)

### D. EXEMPTIONS FOR NON-RESIDENT /FOREIGN CITIZEN

1. Interest received on securities.
2. Interest received by "non-resident(External) Account"
3. Interest from notified central Government if such certificates are subscribed in foreign currency.





4. Remuneration received by foreign diplomats.
5. Salary received by foreign citizen in India/by non-resident foreign citizen/by an employee being a foreign national.
6. Tax paid by Government/Indian concern in case of non-resident/Foreign company.
7. Income arising to notified foreign companies projects connected with security of India.
8. Foreign allowance granted by the Indian government to its employee posted abroad.
9. Remuneration received from foreign government by an individual who is in India in connection with any sponsored Co-operative technical assistance programme.
10. Remuneration received by non-resident consultants and their foreign employers.

**E. EXEMPTIONS FOR OTHERS**

1. Exemptions for newly established industrial undertaking in free trade zones Sec. 10 (A)
2. Exemptions for newly established industrial undertaking in special Economic Zone Sec. 10 (AA) after 31<sup>st</sup> March, 2005
3. Exemptions for newly established industrial undertaking Hundred percent export oriented undertakings Sec. 10(B)
4. Deduction in respect of export of artistic hand made wooden articles section 10 (BA)
5. Income exempted of charitable/Religions trusts Sec.-11

**RESIDENTIAL STATUS AND TAX LIABILITIES**

The tax liability under income tax is determined on the basis of residential status of an assessee but not according to the citizenship hence it becomes necessary that firstly the residential status of an assessee should be determined.

**On the basis of residential status there are 3 categories of assessee:**

- 1) Resident/Ordinary resident
- 2) Not ordinarily resident
- 3) Non resident

There are separate rules for different types of assessee like; individual, H.U.F., firm, companies etc. for determination of residential status.

**Individual Assessee**

**1) Resident / Ordinary Resident :** - If an individual wants to become resident in India, then he has to fulfill the basic condition as well as two additional conditions:

**i) Basic conditions:** In the basic conditions, there are two conditions. On satisfying any one of these, it will be assumed that the basic condition is satisfied.

- a) The assessee must have lived for at least 182 days in India during the previous year.

**OR**

- b) The assessee must have lived for at least 365 days in 4 years preceding the previous year and at least 60days in 4 years preceding the previous year.

**EXCEPTIONS TO THE BASIC CONDITIONS**

1. If an assessee is an India citizen and goes aboard for the employment purpose or leaves the country as a member of crew of an Indian ship.
2. If an assessee is an Indian citizen or an Indian origin, living in a foreign country and comes to India on tour during the previous year.

In both these exceptional cases an assessee has to lives for at least 182 days for satisfying the basic condition.

**ii) Additional Conditions**



There are two additional conditions and assessee has to satisfy both of these conditions. These are :

i) An assessee must have been assessed as resident for at least 2 out of 10 years preceding the previous year.

**AND**

ii) An assessee must have lived for at least 730 days out of 7 year proceeding the previous years.

**Thus on satisfying any of the two basic conditions and two additional conditions an individual assessee can be termed as "ordinary resident".**

- 2) **Not Ordinarily Resident:** If an assessee satisfies the basic condition but fails to satisfy the two additional conditions, then he will be assessed as "not ordinarily resident".
- 3) **Non Resident:** If an assessee fails to satisfy even the basic condition, then he will be assessed or "non resident".

### **Hindu Undivided Family (H.U.F.)**

- 1) **Resident :** An HUF will be assessed as resident in India if :
  - a) Management and control of the business is wholly/partly situated in India.

**AND**

  - b) "Karta" of the HUF satisfies the two additional conditions.
- 2) **Not Ordinarily Resident :** An HUF will be assessed as NOR if:
  - a) Management and control of the business is wholly/partly situated in India

**BUT**

  - b) Karta of HUF does not satisfy the two additional conditions.
- 3) **Non Resident:** An HUF will be assessed as non resident if control and management of the HUF is wholly situated outside in India.

### **FIRM OR ASSOCIATION OF PERSONS**

- 1) **Resident :-** A firm or an AOP will be assessed as Resident of India if its control and management is wholly/partially situated in India
- 2) **Non Resident :** A firm or an AOP will be assessed as non resident in India if it is wholly/partly controlled and managed from outside India.

### **COMPANY**

- 1) **Resident :** A company will be assessed as resident in India if :
  - i) It is an Indian Company

**OR**

  - ii) It is controlled and managed wholly within India.
- 2) **Non-Resident :** A company which is neither an Indian company nor it is wholly/partly controlled and managed from outside India, is called as non-resident.



## RESIDENTIAL STATUS AND TAX LIABILITIES

The tax liability under income tax is determined on the basis of residential status of an assessee but not according to the citizenship hence it becomes necessary that firstly the residential status of an assessee should be determined.

On the basis of residential status there are 3 categories of assessee:

- 4) Resident/Ordinary resident
- 5) Not ordinarily resident
- 6) Non resident

There are separate rules for different types of assessee like; individual, H.U.F., firm, companies etc. for determination of residential status.

### Individual Assessee

**4) Resident / Ordinary Resident :** - If an individual wants to become resident in India, then he has to fulfill the basic condition as well as two additional conditions:

**i) Basic conditions:** In the basic conditions, there are two conditions. On satisfying any one of these, it will be assumed that the basic condition is satisfied.

a) The assessee must have lived for at least 182 days in India during the previous year.

**OR**

b) The assessee must have lived for at least 365 days in 4 years preceding the previous year and at least 60 days in 4 years preceding the previous year.

### EXCEPTIONS TO THE BASIC CONDITIONS

3. If an assessee is an India citizen and goes aboard for the employment purpose or leaves the country as a member of crew of an Indian ship.

4. If an assessee is an Indian citizen or an Indian origin, living in a foreign country and comes to India on tour during the previous year.

In both these exceptional cases an assessee has to live for at least 182 days for satisfying the basic condition.

### ii) Additional Conditions

There are two additional conditions and assessee has to satisfy both of these conditions. These are :

i) An assessee must have been assessed as resident for at least 2 out of 10 years preceding the previous year.

**AND**

ii) An assessee must have lived for at least 730 days out of 7 year preceding the previous years.

**Thus on satisfying any of the two basic conditions and two additional conditions an individual assessee can be termed as "ordinary resident".**

**5) Not Ordinarily Resident:** If an assessee satisfies the basic condition but fails to satisfy the two additional conditions, then he will be assessed as "not ordinarily resident".

**6) Non Resident:** If an assessee fails to satisfy even the basic condition, then he will be assessed as "non resident".

### Residential Status for Hindu Undivided Family (H.U.F.)

**4) Resident :** An HUF will be assessed as resident in India if :

a) Management and control of the business is wholly/partly situated in India.

**AND**

b) "Karta" of the HUF satisfies the two additional conditions.



- 5) **Not Ordinarily Resident** : An HUF will be assessed as NOR if:
- Management and control of the business is wholly/partly situated in India  
**BUT**
  - Karta of HUF does not satisfy the two additional conditions.
- 6) **Non Resident**: An HUF will be assessed as non resident if control and management of the HUF is wholly situated outside in India.

#### FIRM OR ASSOCIATION OF PERSONS

- 3) **Resident** :- A firm or an AOP will be assessed as Resident of India if its control and management is wholly/partially situated in India
- 4) **Non Resident** : A firm or an AOP will be assessed as non resident in India if it is wholly/partly controlled and managed from outside India.

#### COMPANY

- 3) **Resident** : A company will be assessed as resident in India if :
- It is an Indian Company
  - OR
  - It is controlled and managed wholly within India.
- 4) **Non-Resident** : A company which is neither an Indian company nor it is wholly/partly controlled and managed from outside India, is called as non-resident.

#### RESIDENTIAL STATUS AND TAX INCIDENCE (LIABILITIES)

Tax liability of an assessee depends upon the residential status on which income he is liable to pay tax and which incomes are not taxable for him, for determination of this matter, now we have to understand the relationship between residence and tax liabilities :

- Tax liability of **Resident**
  - Income received or deemed to be received in India.
  - Income accrued or deemed to be accrued in India.
  - Income received or accrued outside the India
- Tax liability of **Not ordinarily resident**:
  - Income received or deemed to be received in India.
  - Income occurred or deemed to be accrued in India.
  - Income business situated outside India but controlled and managed from India
- Tax liability of **non residents**:
  - Income received or deemed to be received in India
  - Income occurred or deemed to be accrued in India.



UNIT-III
INCOME FROM SALARY
Computation of Income from Salary
Assessment Year 2017-18

Table with columns for items and values. Items include Cash Receipts (Salary, Bonus, Commission, Allowances, Advance Salary, Arrears of Salary), (B) (i) Employer's Contribution in R.P.F., (ii) Interest on R.P.F., C) Perquisites (Rent free house, Medical facility, Motor car, Education facility), Gross Salary, Less:- Deduction u/s 16 (ii) Entertainment allowance, Less:- Deduction u/s 16 (iii) Professional tax, and Taxable Salary.

Deduction from Gross Salary

(1) Entertainment allowance u/s 16(ii) :- This deduction is allowable only to government employees.

Salary = Basic Salary :-

- (i) Allowance received
(ii) 20% of Salary
(iii) Rs. 5000
} Whichever is less

(2) Professional Tax or Employment tax u/s 16(iii) :-

Actual Payment will be deductible.



Allowances		
Fully Taxable Allowance	Fully Tax free allowance	Partly Taxable allowance
(1) City compensatory allowance (2) Dearness Allowance (3) Deputation Allowance (4) Entertainment Allowance (5) Family allowance (6) High cost of living allowance (7) Medical Allowance (8) Non-practicing allowance (9) Overtime allowance (10) Project allowance (11) Rural area allowance (12) Servant allowance (13) Tiffin allowance (14) Warden and proctor allowance	1) Conveyance allowance 2) Travelling allowance 3) Tour allowance 4) Helper or assistant allowance 5) Academic and research allowance 6) Uniform allowance 7) Special allowance for performing duty. Above allowances will be fully exempted if :- (i) Whole amount is spent (ii) Amount is spent for office use only	1) Education allowance 2) Hostel allowance 3) Tribal area allowance 4) Transport allowance 5) Composite hill compensatory allowance 6) Running allowance to the employees of transport undertakings 7) House rent allowance 8) Under Ground Allowance

**Rules regarding partly taxable allowance**

- 1) **Education allowance :-** Exempted to Rs.100/- P.M. per child for maximum 2 children i.e.  $100 \times 2 \times 12 = \text{Rs. } 2,400/-$
- 2) **Hostel allowance :-** Exempted up to Rs. 300/- P.M. per child for maximum 2 children i.e.  $300 \times 2 \times 12 = \text{Rs. } 7,200$
- 3) **Tribal area allowance:-** Exempted up to Rs. 200/- P.M.
- 4) **Transport allowance:-** Allowance for going to office and coming back to home is exempted up to Rs. 1600 P.M.
- 5) **Composite hill compensatory allowance:-**
  - (i) Manipur skim, U.P., H.P. and J & K where height is 9000 ft. and above Rs. 800 P.M. exempted
  - (ii) In Siachin area Rs. 7000 P.M. exempted.
  - (iii) Places located at a height of 1,000 meter or more above the sea level Rs. 300 per month.
- 6) **Running allowance for employees of Transport undertakings**

70% of allowance received	}	Whichever is less is exempted
or		
Rs. 10,000/- P.M.		
- 7) **House Rent allowance:-**  
Salary = Basic Salary + D.A. Under the terms + Commission at fixed percentage

<b>Allowance received</b>		-----
Less:-		
1) Allowance received	} Whichever	-----
2) Rent paid – 10% of salary	} is less will be	-----
3) 40% or 50% of salary		-----
<b>Taxable H.R.A.</b>		-----

**8) Under Ground Allowance :- Exempted upto Rs. 800 Per Month**  
**Perquisites**

Tax free perquisites	Taxable perquisites	
	For all class of employers	For Specified employers
1) Refreshment facility		
2) Telephone facility	1) Rent free house	1) Servant facility



3) Medicinal facility	2) Concessional rent house	2) Gas, Water & electricity facility
4) Expenses on Training	3) Liabilities of employee paid by employer	3) Free education facility (exceeding Rs. 1000 P.M. Per child)
5) Sale of goods as concessional rate	4) Interest free or concessional loan exceeding Rs. 20,000	
6) Issue of shares/debentures at concessional rate	5) Use of movable assets [10% of cost will be Taxable]	
7) Free Conveyance facility	6) Transfer of movable assets [W.D.V. - Transfer price]	
8) Free Accommodation for employees	7) Medical reimbursement (exceeding Rs. 15000)	
9) Scholarship to children of employee		
10) Leave travel concession or assistance		
11) Loan facility up to 20000		
12) Free use of computers		
13) Free Education facility up to Rs. 1000 P.M. per child		
14) Health club and sport facilities		
15) Tax paid on perquisites		
16) Group insurance and accidental insurance premium paid by employer		
17) Transfer of 10 year old movable assets		
18) Free meal upto Rs. 50		

### Rules Regarding Retirement

1. **Monthly Pension** - Fully Taxable

2. **Computation of Pension** -

(A) Government employee - Fully exempted

(B) Other employee

(i) If employee is getting Gratuity - 1/3<sup>rd</sup> of total pension will be exempted

(ii) If gratuity employee is not getting gratuity - 1/2<sup>th</sup> of total pension will be exempted.

3. **Gratuity** -

(A) Government employee - fully exempted

(B) Employee covered under gratuity payment 1972

Salary = Basic salary + Dearness allowance (which is under the terms of employment or not)

Gratuity received	-----		-----
Less :-			
1. Gratuity received	-----	} Whichever is less	
2. $\frac{\text{Salary last drawn} \times \text{Service Year} \times 15}{26}$	-----		
3. Maximum limit Rs. 10,00,000	-----		
<b>Taxable Gratuity</b>			(-) -----



**Note:-** Salary will be calculated on the basis of last months receipts

(C) Employee not covered under Gratuity payment Act 1972

Salary = Basic Salary + Dearness allowance under the terms + Commission at fixed percentage

Gratuity received	-----		
Less :-			
1. Gratuity received	-----	} Whichever is less	(-) -----
2. $\frac{\text{No. of Completed year} \times \text{Preceding 10 month average salary}}{2}$	-----		
3. Maximum limit Rs. 10,00,000	-----		
<b>Taxable Gratuity</b>			-----

**Note:-** Salary will be calculated on the basis of last months receipts

**(4) Earned Leave Salary:-**

(A) Government employee – Fully exempted

(B) Non Govt. employee –

Salary = Basic salary + D.A. under the terms + Commission of fixed percentage

Salary received for earned leave	-----		
Less :-			
1) Salary received for earned leave	-----	} Whichever is less will be	(-) -----
2) Salary of approval period	-----		
3) Salary of 10 months	-----		
4) Maximum limit Rs. 3,00,000	-----		
<b>Taxable earned leave Salary</b>			-----

**Note:-** Salary will be calculated on the basis of last to month's average salary.

**(5) Compensation on Retrenchment**

Salary = Basic salary + Allowances Taxable + All taxable perquisites

Compensation received	-----		
Less :-			
1) Compensation received	-----	} Whichever is less	(-) -----
2) Salary of 15/30 days on the completed year of service (under industrial dispute act 1947)	-----		
3) Maximum limit Rs. 5,00,000	-----		
<b>Taxable Amount</b>			-----

**Note:-** Salary will be calculated on the basis of last 3 month's average salary

**(6) Amount received from provident fund:-**

Amount received from statutory P.F. and Recognised P.F. will be fully exempted but amount received from unrecognised P.F. will be taxable as under-

(i) Employer's share with interest will be taxable in the head of salary

(ii) Interest on employee's share will be taxable in the head of other sources.